

## **Bureaucratic and Political Corruption in Pakistan.**

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This part of the study looks at the impact of the Bank's policies on bureaucratic and political corruption. The negative welfare impact of bureaucratic and political corruption is widely recognized in Pakistan, though there are differences in the weighting given to different types of bureaucratic and political corruption as causes of welfare reduction. Bureaucratic corruption refers to the corruption engaged in by state employees. In effect this describes a very significant part of overall corruption, as the executive arm of the state is most directly involved in service delivery and economic and social regulation. Even before 1997 when the Bank decided to mainstream corruption-reduction in its lending programs, Bank lending to Pakistan in a number of instances explicitly included governance reforms which implicitly targeted the incidence and/or effects of corruption. However, it seems that Bank lending has so far produced very limited gains for governance improvement and corruption reduction.

On the other hand, political corruption refers to the corruption which political representatives engage in. In countries like Pakistan, political corruption often interlocks with bureaucratic corruption in the form of collusion between bureaucrats and politicians. Whether bureaucrats take the initiative in involving politicians to protect themselves from state sanctions, or whether politicians direct bureaucrats to engage in corruption which benefits the clients of politicians, this interlocking is widespread. It means that sustained reductions in corruption are unlikely unless both types of corruption are simultaneously addressed. From 1997 onwards, Bank policies have tried to address the issue of political corruption within the limits allowed by its charter. Internationally, the Bank has supported democratization and civil society participation in policy-making to make political corruption more transparent and less acceptable. In Pakistan and a number of other countries, the Bank has supported more specific policies for devolution and decentralization to bring politicians (and bureaucrats) closer to the people they service, with the hope of improving monitoring and accountability.

The anti-corruption policies adopted by the Government of Pakistan, some of which have been supported by the Bank, include targeting Perceptions and Beliefs, for instance through organizing workshops and seminars, Institutional Reforms, such as support for decentralization and devolution, Organizational Reforms, such as privatization and civil service reforms, and Policy Reforms, including those aimed at reducing the scope of government intervention in the economy. The scope of this chapter is to look specifically at government policies, specifically those supported by the Bank, which are intended to impact on bureaucratic and political corruption, and to examine the likely impact of these policies given their design and mode of implementation.

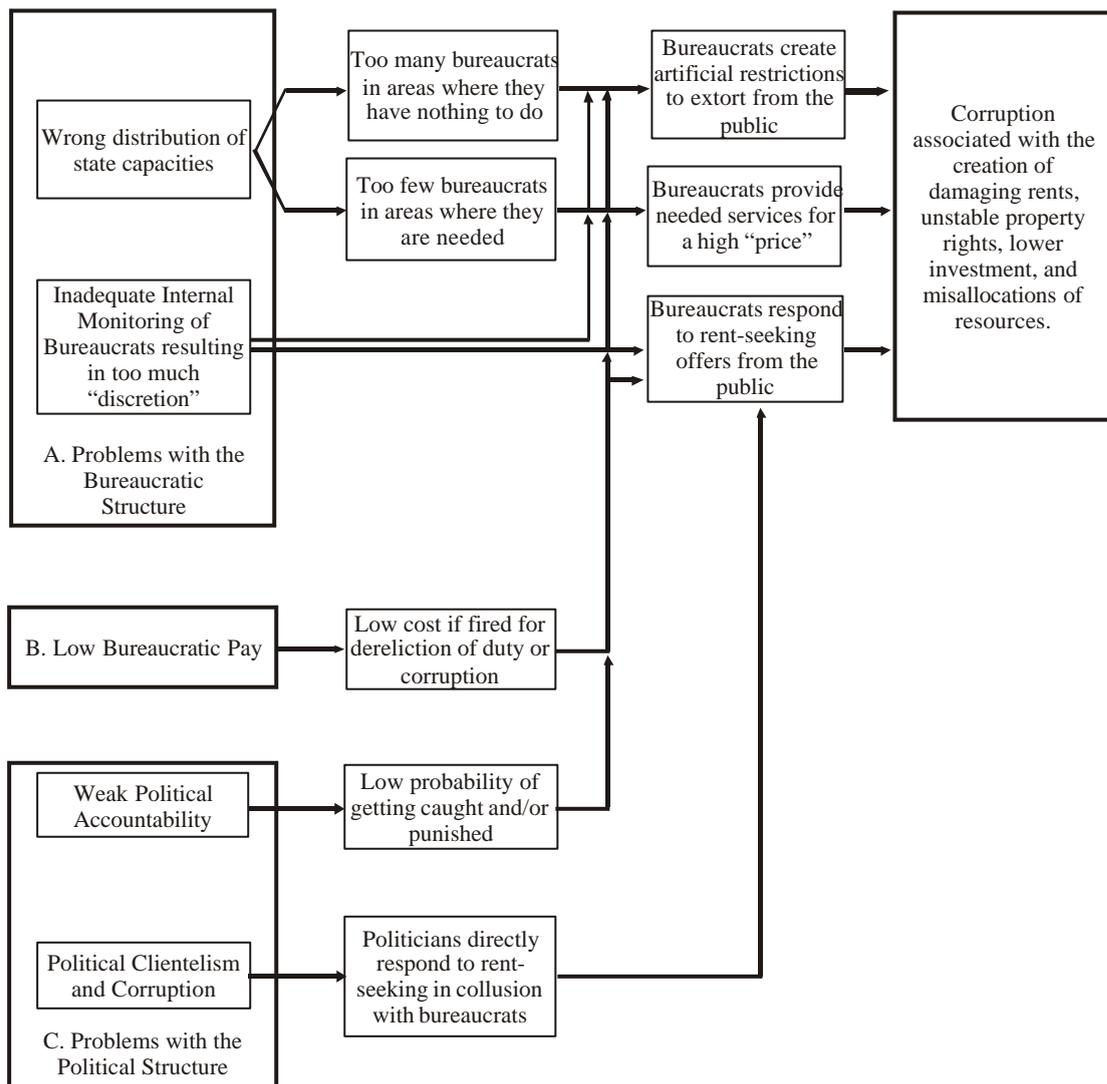
We begin by identifying the key drivers of bureaucratic and political corruption and the types of policy interventions which have been proposed to reduce or mitigate their effects. We then examine the results achieved, or are likely to be achieved given the evidence from Pakistan and our extensive interviews with stakeholders. Finally, we conclude by asking how appropriate Bank policies have been for achieving the stated goals of corruption-reduction and improvements in governance, and where attention needs to be focussed in the future. Though bureaucratic and political corruption are closely related and support each other, for presentational convenience we will discuss these two types of corruption in consecutive sections.

## **1) BUREAUCRATIC CORRUPTION**

### **Causes, Consequences and Policy Responses**

By definition, corruption always involves bureaucrats and/or politicians and therefore **all causes** of corruption contribute to either bureaucratic or political corruption. In this chapter, however, we will only look at those determinants of corruption which are related directly to the internal structure and organization of the bureaucracy and the polity. Here we can identify a number of contributory factors. Bureaucrats are likely to be corrupt if they have the opportunity to be corrupt and if the expected cost of corruption for the bureaucrat is smaller than the expected gain. Developing countries generally have much higher corruption than advanced countries because the state typically occupies a strategic position in processes of early capitalism. This is true regardless of the specific policies followed, though

policies obviously matter in determining the extent and type of corruption. The bureaucracy is also typically less well qualified and paid (so the opportunity cost of losing state sector jobs is smaller), its internal governance is weaker (so the chances of detection and punishment are smaller), and political clientelism is more rampant, (allowing bureaucrats to be politically protected and putting pressure on them to distort delivery for political goals). While this is true for all developing countries, the incidence of corruption and its effects are different because state capacities, policies and social and political contexts vary widely.



**Figure 1 Key Internal Drivers of Bureaucratic and Political Corruption**

We begin with a simple framework which tells us how the structure, organization and pay of the bureaucracy help to determine the extent and incidence of corruption and its subsequent

effects, and how these factors are reinforced by features of the political structure. These internal drivers of bureaucratic and political corruption are outlined in Figure 1.

The first set of factors (Box A) relates to the structure of the bureaucracy and its relevance for the tasks the state has to perform in that economy and society. The possibility of corruption is substantially enhanced if the structure of the bureaucracy is “wrong” and under these circumstances, the *type* of corruption is likely to be much more damaging for the economy. If there are large numbers of redundant state employees (typically on low salaries) they are likely to seek to create jobs and incomes for themselves by creating restrictions simply to extort rents from the public. On the other hand if capacity to provide key services and functions is under-developed, bureaucrats in these positions are able to bargain for a price for these services from those who need them most desperately.

Problems with the bureaucratic structure also include an inadequate structure of internal monitoring and discipline. It is widely recognized that developing country bureaucrats have too much “discretion” which allows them to engage in corruption or deliver poor performance without the threat of effective checks. Given the strategic role of the developing country state, it is not possible to remove discretion simply by cutting back the state. There also has to be effective internal monitoring and disciplining mechanisms. The absence of monitoring can result not only in increased incentives for corruption when the bureaucratic structure is dysfunctional, it can also result in direct rent-seeking activities by bureaucrats even when there is no problem with the bureaucratic structure.

It has also been argued that bureaucratic corruption is encouraged by low pay for bureaucrats, because this lowers the potential threat of losing their job as a result of corruption or dereliction of duty. This is shown in Box B in Figure 1. The incentive for corruption induced by low pay reinforces all the drivers of corruption discussed so far. Finally, Box C identifies the political input into the corruption process which is discussed in the next section. A clientelist political structure weakens the possibility of bureaucrats being held accountable by their political masters. This reinforces the effect of weak internal monitoring within the bureaucracy and once again reinforces all the corruption drivers

discussed so far. Finally, the last box in Figure 1 shows that politicians may directly lead rent-seeking and rent-creation, acting in collusion with bureaucrats.

The **consequences** of bureaucratic and political corruption in Pakistan are widely recognized to have been extremely damaging. Figure 1 shows that we expect the final outcome of these types of corruption to be the creation of value-reducing rents (transfers to favored clients, monopolistic restrictions which help particular individuals, and so on) a reduction in the stability of property rights, lowered investment, and a misallocation of public resources. The relative importance of different types of problems created by corruption and its impact on different sections of the population cannot be directly measured. However, opinion surveys generally show that the public considers corruption by the police and by the lower judiciary to be the most onerous types of corruption. In terms of Figure 1, these types of corruption take place both because of inadequate or dysfunctional capacity within the police and judiciary, as well as inadequate internal monitoring. Thus given the shortages of staff, to get the police to investigate a burglary or the judiciary to expedite a land dispute case in court, even otherwise honest citizens may have to bribe. On the other hand, corruption of these types is also driven by lack of adequate monitoring and accountability, so that for instance, interested parties within the public may directly seek rents by using the police or the judiciary to seize land illegally or to avoid criminal charges following a theft.

While corruption in the police and lower judiciary impacts on millions of people, and therefore comes out on top in opinion surveys, it is not necessarily the case that these types of corruption have the greatest economic impact overall. For instance, bureaucratic and political corruption are often interlocked at the highest levels, such that politically driven imperatives for rent-seeking coming from Box C in Figure 1 can combine with the rent-seeking incentives of bureaucrats to create rents for powerful clients of the state. Examples of these would be the protection of big loan defaulters, the protection of big tax evaders, the allocation of public resources such as infrastructure construction budgets to clients of politicians who provide inferior construction with the bureaucrats taking a cut, and so on. These examples of higher level corruption are less visible and do not directly impact on the public's sense of powerlessness and injustice, but their overall impact on government failure

and on economic performance and poverty can be greater because they derail economic development significantly. When public resources for education and health are misallocated as a result of the construction of poor infrastructure or the employment of sub-standard teachers and health workers who are political clients of politicians there is also a direct impact on poverty and serious implications for human capital development and long run growth prospects. Anecdotal evidence and newspaper reports suggest that the interlocking of bureaucratic and political interests results in the misallocation, waste or misappropriation of billions of rupees of public resources every year. A detailed study has yet to be done which tries to estimate the relative economic damage caused by bureaucratic and political corruption of different types. Such a study would be very useful as a starting point for identifying priority areas where attention should be focussed.

**The Adequacy of Policy Responses.** The Pakistan government has addressed some of the issues identified in Box A. The structure and size of the federal bureaucracy has been the subject of the Committee on Restructuring and Rightsizing the Bureaucracy. Internal bureaucratic accountability has been addressed by amending the Federal Public Services Commission Ordinance, the Civil Service Act and the passing of a Removal from Services Ordinance directly targeted at corrupt bureaucrats. There have also been improvements in external monitoring through the setting up of an ombudsman and through the actions of the National Accountability Bureau. Pay and compensation issues identified in Box B have been addressed as part of the government's ongoing Pay and Compensation Reform. The Government of Pakistan has also attempted to address some of the issues of accountability within the political structure shown in Box C through a series of political reforms, and in particular by adopting a strategy of decentralization and devolution. Progress on that front is discussed in the next section. We will discuss the effectiveness of these responses by looking at the extent to which they are likely to succeed in eliminating one or more of the key drivers of corruption identified in Figure 1.

**A. Reforms of the Bureaucratic Structure.** We have seen that both the distribution of state capacities and the internal monitoring structure of the state can contribute to the degree

and type of corruption a society suffers from. The government of Pakistan has embarked on a number of reforms in all of these areas which have received broad support from the Bank.

**The Distribution of State Capacities.** Theory offers only very broad outlines for identifying the desirable structure of government bureaucracy and the functions it should perform. At a general level, these functions are well known. They include the maintenance of law and order, responding to market failures by providing public goods, correcting externalities and carrying out essential redistribution for poverty alleviation and political stability. However, the specific content of these functions can and does vary considerably even between countries which are considered to have good government. These variations depend on the level of development of the economy, its ecology and technology, differences in internal political structures and the historical capacities of a state to deliver particular services. While there can be no development without a minimum degree of law and order, beyond that there is room for considerable variation in the specific capacities which a state can try and acquire depending on economic and political needs and prior state capacities<sup>1</sup>.

The empirical evidence therefore shows a considerable variation in the types of state structures which have been able to promote development in developing countries. Nevertheless, while successful states can differ quite a lot in the services and regulations covered by the civil service, they share some characteristics in common. In all of them, basic political stability and security of investments is required. A minimum degree of security of private property rights is also required, though the recent example of China suggests that investors' interests can be protected even without a very transparent "rule of law". Successful states essentially display coherence in policy-making at the highest level and state leaders have the political ability to pull different parts of the state machinery together to

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<sup>1</sup> See for instance, Stiglitz, J. et. al. 1989. *The Economic Role of the State*. Bank Insinger de Beaufort NV., Bardhan, P. et. al. 1990 "Symposium on State and Economic Development", in *Journal of Economic Perspectives* Vol. 4., and World Bank 1997 *World Development Report: The State in a Changing World*. These considerations justify sequencing governance reforms, Huther, J. & Shah, A. 2000. "Anti-Corruption Policies and Programs: A Framework for Evaluation", *World Bank Policy Research Working Paper*, 2501.

deliver services and functions which are perceived to be vital for economic growth and political viability<sup>2</sup>.

Despite the possible variations in the functional tasks which a successful developing country state could focus on, clarity about the functions and services which the civil service is supposed to perform in a particular case is clearly the starting point of any reform of civil service structure. The staffing levels, skills, as well as the institutional and organizational structure of the service should be consistent with the functions it is expected to perform. *Therefore, a necessary precondition for a successful civil service reform program is a coherent set of objectives of the leadership carrying out the reform.* Coherence in this context means the identification of a set of functions, regulatory objectives, service delivery objectives and redistributive objectives for the state which make sense given the level of development, the political context, and the competencies of state employees.

As Figure 1 suggests, one of the main causes of governance failure and of corruption is the *presence* of dysfunctional and underemployed civil servants who provide no services, and who are not therefore responsible to anyone. They have a strong incentive to create employment and income for themselves by obstruction and interference. Equally, the *absence* of government capacity in necessary areas also generates pressures for purchasing necessary services with bribes and corruption and is a further cause of governance failures. Correcting the functional structure of the civil service to make it more consistent with service delivery, regulatory and redistributive requirements is the first step for reducing these pressures for corruption and for improving governance.

The World Bank's 1998 document *A Framework for Civil Service Reform in Pakistan* identifies the importance of a "long-term vision" specifying the end point of the reform process as a necessary precondition for successful reform. The report goes on to recommend the areas which the Pakistan civil service should concentrate on. These include

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<sup>2</sup> See for instance the comparison of different types of state structures and policies in Asian countries in Khan, M. and Jomo, K.S. 2000. eds. *Rents, Rent-Seeking and Economic Development*. Cambridge: Cambridge University Press.

developing the capacity for effective, transparent and evenhanded regulation, withdrawing from commercially-oriented activities which could be left to the private sector, shedding its role of generating employment through the civil service, and effective provision of basic social services (pp. 5-6). It recognizes that this is a very general statement of goals. It would be up to the reforming authorities to either flesh this out or to offer an alternative vision of the types of regulation and service provision which may be appropriate for the contemporary Pakistan economy.

**Table 1 Public Sector Employment in Pakistan**

	1993/94	% of Total	1996/97	% of Total	Growth 1994-7
Federal Government	452,141	18.2	696,549	24.6	15.5
Provincial Government	1,586,081	63.7	1,708,014	60.4	2.5
Total Government	2,038,222	81.8	2,404,563	85.0	5.7
Federal Corporations	452,283	18.2	424,073	15.0	-2.1
Total Public Sector *	2,490,505	100.0	2,828,636	100.0	4.3

\* Excluding local government and provincial public corporations.

Source: World Bank. 1998. *Pakistan: A Framework for Civil Service Reform in Pakistan*.

Table 1 shows that at an aggregate level, employment in the public sector in Pakistan has been high and growing. Growth was high even in the 1990s which was a decade of low growth for the economy. Indeed, the public sector is widely seen to be not just a service provider for society and a regulator of the economy, but by many people as primarily a social safety net providing employment opportunities particularly at times of economic difficulties. The safety net view of the public sector is supported by the data in Tables 2 and 3 which show the distribution of public employment at the federal and provincial levels respectively across pay scales. There are 22 pay points in ascending order, and officers are usually considered to be state employees at a Basic Pay Scale (BPS) of 17 or above.

**Table 2 Distribution of Federal Employees According to Pay Scale 2000-01**

	BPS 17-22	BPS 12-16	BPS 1-11	Total
Main Federal Divisions	2,027	2,261	6,886	11,174
% of Total	18.1	20.2	61.6	100.0
Attached Departments	8,671	21,759	251,193	281,623
% of Total	3.1	7.7	89.2	100.0
Autonomous Bodies	14,696	6,586	69,022	90,304
% of Total	16.3	7.3	76.4	100.0
Total Federal *	25,394	30,606	327,101	383,101
% of Total	6.6	8.0	85.4	100.0

\* for 30 out of a total of 34 federal divisions, excluding Defence, Defence Productions, Foreign Affairs and Revenue.

Source: Government of Pakistan, Planning Commission. April 2001. *Report of the Committee on Restructuring and Rightsizing of the Federal Ministries/Divisions.*

**Table 3 Provincial Government Employees by Pay Scale 1996-7**

	BPS 16-22	BPS 8-15	BPS 1-7	Total
Provincial Government Employment	166,111	356,812	1,172,489	1,695,412
% of Total	9.8	21.0	69.2	100.0

Source: World Bank. 1998. *Pakistan: A Framework for Civil Service Reform in Pakistan.*

More than 90 percent of state employees at both the federal and provincial levels are below BPS 17. More than 80 per cent of federal employees are below BPS 12 and almost 70 per cent of provincial employees are below BPS 8. In terms of the sectoral distribution of employment, at the federal level, employment is concentrated in the railways, finance, interior and education departments which in 1993 accounted for 63% of federal employment. At the provincial level (which in aggregate accounts for more than 60% of total public sector employment, see Table 1), the majority across the country work in social sectors, particularly health and education (64% in Punjab in 1998, 68% in NWFP in 1997, 45% in Balochistan in 1997, Sindh figures not available). Relative employment in the social sectors has increased since SAP commenced in 1993/94. Thus the two issues concerning the appropriateness of the structure of government employment are first, the distribution between higher grade and lower grade employees, and secondly the sectoral capacities of government.

On both these issues, the Pakistan government has recognized that it has a problem. The *Report of the Committee on Restructuring and Rightsizing of the Federal/Ministries Divisions*<sup>3</sup> addresses in particular the issue of excess employment at lower levels of government. This committee asked thirty of the thirty-four federal divisions to formulate their own mission statements including statements of functions which each division perceived it ought to be providing. On this basis, suggestions were solicited for restructuring and rightsizing. The federal government departments themselves responded with a suggested downsizing of almost 7% (see Table 4), with virtually all of the surplus employment being identified in the pay scales below that of officers. In addition, by applying a reasonable ratio for support staff to officers, the Committee on Restructuring identified a further 5% excess employment in the lower grades, suggesting a total excess employment of around 12% at the level of the federal government, almost entirely concentrated in the lower grades. But mindful of the social consequences of redundancy, the Committee did not recommend redundancy. Instead it suggested that surplus employees should be placed in a surplus pool to be re-allocated as required, or to be lost through natural wastage.

**Table 4 Restructuring of Federal Government Proposed by Federal Divisions**

BPS 17-22		
Actual	Proposed	% Change
25,394	25,032	-1.4
BPS 12-16		
Actual	Proposed	% Change
30,606	28,215	-7.8
BPS 1-11		
Actual	Proposed	% Change
327,101	303,267	-7.3
Total Federal Government*		
Actual	Proposed	% Change
383,101	356,514	-6.9

\* Figures refer to 30 out of 34 federal divisions.

Source: Government of Pakistan Planning Commission. April 2001. *Report of the Committee on Restructuring and Rightsizing of the Federal Ministries/Divisions*.

<sup>3</sup> Government of Pakistan Planning Commission. April 2001. *Report of the Committee on Restructuring and Rightsizing of the Federal Ministries/Divisions*. Islamabad.

While the report represents a vital starting point, there are a number of directions in which progress needs to be made before civil service reform is likely to address the issues of structure and capacity identified above.

i) **A Comprehensive Examination of Excess Employment is Required.** As the full title of the report makes clear, the remit of the committee was only to look at the federal ministries and divisions (and even there 4 out of 34 divisions were outside its terms of reference). Its terms of reference excluded the provincial level which provides the critical health and education services and employs more than 70 percent of government employees. Clearly a comprehensive reform process would have to look at the mix of government skills and competence across all sectors, services and functions. The provincial level is critical in terms of employment and service delivery but it has not yet been subject to an analysis of its desired functions, its current competence, the implicit areas of overstaffing and the requisite capacity development. In the past, the federal government has imposed employment bans on the provincial governments to control the fiscal strain. These bans have not worked in limiting employment growth (see Table 1). Moreover, as a senior provincial bureaucrat pointed out to us in our interviews, blanket employment bans have often simply led to appointments which bypassed procedures not only because of political corruption but also because essential services had to be delivered. This simply underlines the importance of a prior analysis of the functions which the civil service is expected to perform, including the provincial level, if staffing changes are to be focussed at the appropriate locations.

ii) **Attention has to Given to the Procedure of Implementation.** So far implementation of any of the recommendations has been very slow. Progress has been limited to the publication of a number of reports but publication of intent is clearly insufficient. Previous governments had also identified the problem of excess employment, particularly at the lower levels of the civil service and they had introduced employment bans. The track record of implementation of previous reform efforts along these lines has not been good. For instance, the preceding PML government had employment bans over 1997-1999 and earlier during 1990-93. Both senior civil servants and politicians confirmed to us that the outcome was essentially that a number of employees were put in “surplus pools” on full pay and many

were later re-absorbed in other departments. Early retirement schemes have been more successful in terminating employment but these suffer from an adverse selection problem because more competent bureaucrats tend to take up the offer as they have employment opportunities elsewhere<sup>4</sup>. These observations reinforce the need for a prior analysis of required functions and existing strengths and weaknesses of the service before identifying the specific categories of employees who need to be hired or fired.

The political constraints facing previous elected governments possibly explain the very limited progress made in any restructuring which involved large job losses within the civil service. On the face of it, the present military government does not face the same constraints and for this reason, many of the supporters of reform whom we interviewed have higher hopes of reform under this regime. However, the political constraints facing the regime may have changed in the context of the Afghanistan war and its aftermath. Our interviews were conducted before the involvement of Pakistan in a new economic and political situation which may make the implementation of employment reductions more difficult.

iii) **A Consensus on the Objectives and Functions of Government is Critical.** While there has been some progress in identifying excess employment, there seems to be no consensus on what the desired functions of the state are, and therefore on what the functional allocation of employment and skills within the bureaucracy should be. The remit of the *Committee on Restructuring* was to ask each existing divisional head to define service delivery and to set targets for its own division/ministry. A coherent integrated plan for the functional structure of the civil service as a whole is unlikely to emerge through this process. Indeed, our respondents in different parts of the bureaucracy did not share a uniform vision of the desired functions of the bureaucracy and it appears that support for a unified set of goals have not been formulated at the highest level of the state leadership.

The Committee on Restructuring did identify important weaknesses in skill and capacity at the highest levels of the Divisions it looked at. While the surplus employment identified by

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<sup>4</sup> World Bank 1998. *Civil Service Reform* op. cit. and confirmed by our own respondents.

the Committee has been widely quoted and supported by the Bank, in fact the skill and capacity extension at the higher levels was considered by the Committee to be more important. This was reiterated by several of the senior bureaucrats we interviewed who pointed out that at the highest levels of government (grades 21 to 22) there were a handful of individuals servicing a diverse country like Pakistan with a population of 140 million, and their skills and training were often inadequate for the tasks they needed to perform.<sup>5</sup> However, for a strategy of capacity building to be supported, the needs have to clearly identified and elaborated in the context of a comprehensive plan.

Extensive interviews with senior bureaucrats, politicians and the donor community in Pakistan confirmed that no consensus exists about the desired shape of a reformed civil service. There were significant differences between respondents about the focus of government service delivery and the areas of government comparative advantage. Many respondents, particularly within the donor community, but also including political parties and some bureaucrats argued that law and order, policing and justice were in greatest need of strengthening as they directly impinged on the common man and woman. Others emphasized the damage being done by a corrupt revenue collecting department and government regulation of trade and stressed a focus on these areas as they may have a bigger *indirect* impact on the poor through the economy. Others, particularly senior civil servants, focussed on the lack of regulatory capacity at the highest levels of the civil service dealing with economic management, market regulation and social policy, arguing again that these had a bigger impact on the poor *indirectly* through the economy. As one senior ex-bureaucrat pointed out, "ninety percent of the sick industries in Pakistan were sick not because of any fault of the owners but because of government partnership breaking down".

There were thus a variety of views on the appropriate functions of government. In the absence of an attempt to build consensus for a coherent civil service structure based on the government's comparative advantage, or even a clear picture of what the reform leadership

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<sup>5</sup> According to estimates published by the World Bank, the number of individuals employed at BPS 21 and 22 was approximately 350 in 1997, see Appendix 1, World Bank 1998. *Civil Service Reform* op. cit. A comprehensive review of civil service structure would have to look not only at the numbers at the highest level, but also the adequacy of their functional skills for the tasks they have to perform.

itself wanted, it is difficult to claim in abstract what the priority areas of reform are. Priorities will depend on a comparison of the desired functions with the actual performance of different parts of the state. For instance, it may be that although policing and judicial reforms are vital, the gap at some other level is bigger, or vice versa. It is a significant weakness of the reform process that discussion and consensus building about the desired structure of government as a whole seems to have been absent. One senior bureaucrat suggested that the Bank should play a direct role in facilitating discussions and developing a consensus about the desired structure of government, going as far as suggesting that government structure should be part of Bank conditionalities. This would be counter to the objective of local ownership of reform but the frustration of bureaucrats stuck in individual divisions who do not see how a comprehensive review can be organized points out a fundamental weakness in the current reform process. A piecemeal approach to reforming parts of the civil service may end up with a civil service with large dysfunctional parts as well as weaknesses in necessary areas, both of which will continue to drive poor governance and corruption (see Figure 1).

**Internal Monitoring.** While getting the structure of government right is necessary for improving governance and reducing corruption, it is not sufficient. Figure 1 points to the importance of effective internal monitoring for lasting improvements in governance and reductions in corruption. A dysfunctional structure of government creates strong incentives for corruption, but it is weak accountability which actually translates incentives into actual corruption. Moreover, Figure 1 also shows that even if the structure of government was “right”, weak monitoring would still directly result in bureaucratic involvement in rent-seeking activities. The state can always make a difference to the profit opportunities of individuals and they will be willing to pay to influence the state in the absence of internal or external monitoring. Thus monitoring and accountability are critical for the civil service to deliver results, even after it has been re-structured in line with the functions appropriate for the particular economy.

A civil service is involved in what Alchian and Demsetz describe as team production<sup>6</sup>. This means that simply by looking at the collective outcome, it is not possible to attribute praise or blame to individual members of the team. Someone has to spend time and resources monitoring each individual of the team if effort is to be sustained. In the case of a private firm, the owners carry out this task because they want to maximize profits. This option is not available to a bureaucracy which has to set up a dedicated monitoring mechanism instead. Since it is not possible for a central agency to monitor every individual in the bureaucracy, the monitoring of individuals has to be devolved. A possible solution would be to devolve responsibility of monitoring to functional sub-groups with devolved budgets (such as health or disaggregated further to say primary health care), with the central agency only monitoring the *outcomes* achieved by each functional group. Provided the central agency could impose effective budgetary or other sanctions against non-performing groups, this would create strong incentives for effective monitoring of effort at lower levels where better information about individual performance was available.

In this and other related schemes, the effective internal monitoring of a bureaucracy thus requires at least three conditions.

**i) Clear Goals for Each Functional or Devolved Group.** The central monitoring agency has to have clear targets against which to judge the performance of each functional sub-group.

**ii) Accurate Information about Performance Outcomes.** The monitoring agency needs to have good information about the *outcomes* achieved by each functional group.

**iii) Effective Powers to Sanction.** The monitoring agency has to have the power to impose sanctions on non-performing functional groups. In turn, lower down the chain, the head of the division, department or activity has to have effective sanctions against non-performing individuals. There also have to be obvious checks and balances to ensure that these powers are not themselves misused. But without effective sanctions, the entire monitoring exercise is futile because there will be no incentive for individual civil servants to operate any differently even if their failure to deliver is well known.

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<sup>6</sup> Alchian, A. & Demsetz, H. 1972. Production, Information Costs and Economic Organization, *The American Economic Review* 62.

The reform process has been quite weak in addressing these difficult issues of performance monitoring and sanctions. Our interviews with key stakeholders suggested a number of observations on each of the three points identified above.

**i) Clear Goals.** At the highest political levels, clear goals for various state functions have not been evident in Pakistan. Rather, the actions of political leaders have typically revealed contradictory goals which they want the civil service to deliver. A number of respondents pointed out that while developmental goals are usually professed, in practice, the civil service has been frequently used by politicians as an agency for employing their clients. Senior bureaucrats pointed out that intervention by politicians seeking to achieve short term and partisan goals was a serious problem which subverted the operation of the civil service, forcing actions which favored specific clients of political bosses. Thus to the extent that political control over the civil service exists, it is often misused to favor specific individuals in their efforts to get jobs, avoid arrest for crimes, evade taxes or to get government contracts. Ultimately, the problem is that politicians have to respond to a much greater extent to demands coming from powerful and well-organized constituencies and individuals, rather than to the “general interest”<sup>7</sup>. There are no quick solutions to this problem which requires political reform of agencies such as political parties such that they become more developmental and capable of taking a longer term view at the cost of annoying particular individuals who may be important political clients.

Our discussions with stakeholders revealed concerns that using citizens groups as monitors in place of the formal political process would not necessarily impose any clearer goals on the civil service. Citizens groups would be subject to the same concerns as political representatives. What would be the constitution of the citizen group? How would we ensure that they represent social interests and not particular interests? And so on. On the other hand, one senior political respondent suggested that the prohibition on corporate financing of

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<sup>7</sup> Olson, M. 2000. Dictatorship, Democracy and Development, in Olson, M. and Kähkönen, S. eds. *A Not-So-Dismal Science: A Broader View of Economies and Societies*. Oxford: Oxford University Press. These considerations help to explain why there is no simple correlation observed between democracy and corruption (Treisman, D. 2000. The Causes of Corruption: A Cross National Study, *Journal of Public Economics* 76) or between democracy and growth (Barro, R.J. 1997. *Determinants of Economic Growth: A Cross-Country Empirical Study*. Cambridge, Mass: The MIT Press).

political parties since 1984 had inadvertently removed a mechanism through which productive interests could set goals for politicians. It is likely that if private sector funding of political parties is properly regulated to ensure that favors are not purchased by particular businessmen, the general effect may be beneficial. However, since these reforms concern political parties and the legislature, they are not ones which a military government is best able to carry out. The setting of clear goals for the government clearly has to be part of the political process which it is necessary for countries like Pakistan to address to create a political constituency for the reform process.

**ii) Accurate Information.** The government of Pakistan has taken on reforms to make the information used to reward bureaucrats more objective and less politicized. Thus, the Establishment Division has recommended as part of the current reform drive that promotions to higher grades (17 and above) should rely more on examinations and less on internal confidential reports by superiors. This may address some of the arbitrariness faced by individual bureaucrats facing promotion but it does not address the monitor's information requirement for rewarding or punishing individual bureaucrats. This is because the quality of a bureaucrat as measured by examinations is not relevant for rewarding success as measured by outcomes. The latter requires ongoing monitoring in the performance of tasks by group leaders who are located close to the bureaucrat, together with the setting of clear *target outcomes* for the group.

In some areas there has been significant improvements in information flows, such as in the Bank supported *Project to Improve Financial Reporting and Auditing (PIFRA)*. However, while these improvements are important, they are addressing financial auditing and not the problem of monitoring *performance outcomes*. To some extent the information about outcomes can be collected by external monitors. The most obvious interested parties who have a theoretical interest in monitoring performance outcomes are the political representatives of the people. The information available to political monitors can be improved through relatively simple reforms. Senior political respondents pointed out that some of these problems can be addressed by providing professional staffing to political representatives and strengthening the committee structure of the legislature such that it can

perform oversight functions. These reforms would contribute towards monitoring but what is also required is an internal monitoring structure which can carry out day-to-day monitoring of performance outcomes within the civil service bureaucracy.

To deal with widespread public dissatisfaction with bureaucratic corruption, reforms have concentrated on setting up independent commissions charged with investigating and prosecuting wrongdoing on the part of bureaucrats. The *Ehtesab Commission* was an Accountability Commission set up in 1996. Its task was initially to investigate individual cases and prosecute them in the High Court. Its successor is NAB, the National Accountability Board. Its activities are reviewed in detail in another chapter, but it is important to point out that NAB does not address the need to have day to day performance monitoring of the functions which the bureaucracy is supposed to perform or the services which it is supposed to deliver, with effective sanctions for non-performance. While NAB does uncover information about governance failures and corruption, it does so sporadically on the basis of information passed on by whistleblowers which then leads to further investigations and often prosecution. Its effects on governance is through instilling fear in the minds of bureaucrats which it is hoped will result in diligence. By itself, it does not lead to the setting of achievable functional targets and the monitoring of effort by functional team leaders. In the long run the latter is as or more important than prosecuting the corrupt. While an extremely corrupt civil service cannot be efficient, an honest civil service can potentially also fail to deliver services efficiently.

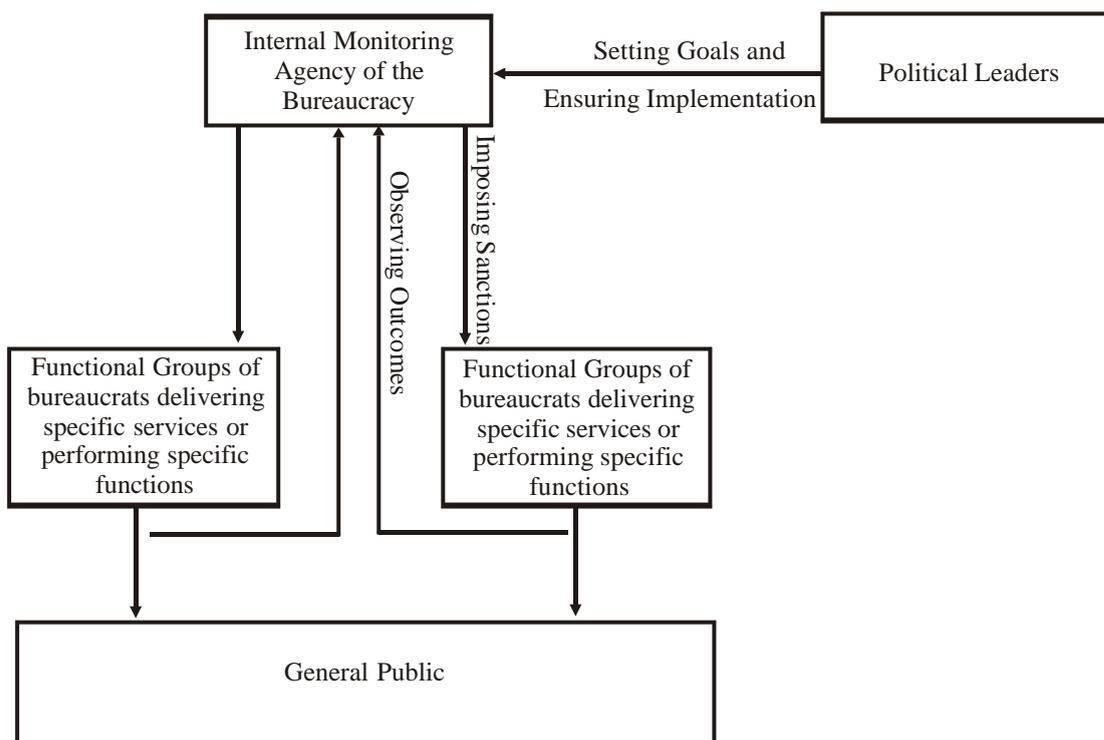
Many of our key respondents agreed that the internal monitoring of *outcomes* was critical but they also pointed out why such monitoring would be very difficult in the context of Pakistan. The monitoring of outcomes is not made easy by the fragmented institutional structure of the Pakistan civil service. The civil service is divided into twelve occupational groups and services which are engaged in rivalry and a struggle for supremacy<sup>8</sup>. If a failure occurs in achieving outcomes, it is not always clear which tier or occupational group is

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<sup>8</sup> Shafqat, S. 1999. Pakistani Bureaucracy: Crisis of Governance and Prospects of Reform, *Pakistan Development Review* 38 (4) pp. 1011-12. This is reiterated in World Bank. 1998. *A Framework for Civil Service Reform in Pakistan* p. 56.

responsible. Effective monitoring of outcomes achieved by functionally specified groups requires as a precondition a simplification of the civil service structure, with different functional groups organized under the same unified hierarchy. The current structure of the civil service was the outcome of the 1973 reforms whose underlying motivation was political, to weaken the power of the elite Pakistan Civil Service which was seen by the political leadership as responsible for the undemocratic traditions of the previous decades. However, the time has come to revisit these questions from the perspective of how to construct a civil service structure which can allow a central monitoring body to assess performance by different functional groups providing clearly specified services or regulatory functions. The availability of adequate information for effective monitoring thus also depends on getting the structure of the civil service right.

**iii) Effective Sanctions.** Effective sanctions are the most important of the requirements needed to have effective internal monitoring. There is no point in setting clear goals, then collecting accurate information on goal fulfillment, if this information cannot be acted on. At the moment, the bureaucracy is not set up to deliver identifiable goals and so monitoring does not take place to test the degree of goal attainment. But if the civil service were to be restructured into functional groups, how easy would it be to also have effective sanctions?



**Figure 2 Bureaucratic-Political Interface Required for Effective Sanctions**

Figure 2 shows the necessary relationship between political goal setting and monitoring and the internal monitoring of the bureaucracy. The setting of social goals is a political process. Correspondingly, the ultimate sanctioning of bureaucrats has to be done by their political masters when they fail to deliver achievable targets. The internal monitoring and sanctioning of bureaucrats only becomes effective when the political process responds to the information about goal fulfillment, for instance by changing the allocation of resources through the budget or (when this is allowed by the constitution of the particular country), by changing the top bureaucrats in command of the non-performing functional groups. It is difficult to envisage an effective internal monitoring system for bureaucrats which does not ultimately require pressure from the political process to deliver results.

In reality, in countries like Pakistan, not only is the bureaucracy not structured into functional groups whose performance can be easily monitored, but most importantly, the political process does not provide clear goals or the external pressure to ensure that these goals are achieved. On the contrary, political intervention far from putting pressure on bureaucrats to

deliver, often makes matters worse because they command bureaucrats to favor particular clients. In our interviews with key politicians and bureaucrats, the failure of politicians to effectively monitor bureaucrats was explained very differently by respondents depending on their location within the bureaucracy or the political structure. Bureaucrats explained the failure by pointing out the gap in skills and education which typically exists between politicians and bureaucrats, to the advantage of the latter. This gap may be less serious at higher levels where politicians may be very well-educated and potentially able to interpret and respond to sophisticated information but it can be very serious at lower levels such as provinces and districts even though notable exceptions may exist even there. Bureaucrats also typically argued that politicians were not well-intentioned or well-informed monitors. Their intervention, far from improving bureaucratic performance, often forced bureaucrats to distort service delivery in favor of particular political clients.

Predictably, politicians argued that bureaucratic autonomy and discretion was the source of corruption and they traced this back to the lack of democracy in Pakistan. Far from too much political interference being a problem, they identified the problem as too little political control over an over-powerful bureaucracy. Combining both sides of the story, it seems that while politicians in Pakistan are able to influence decisions in favor of their clients, they seem unable to discipline bureaucrats for poor performance. This puzzle, and the fact that politicians and bureaucrats systematically blamed each other, suggests that in fact the problem is one of widespread collusion and the interlocking of bureaucratic with political corruption. There is an obvious problem here for attempts to sanction bureaucrats through the political process. If politicians do not have developmental objectives because they are responding to particularistic demands, greater political control by politicians over bureaucrats may paradoxically lower the efficiency of service delivery. Only if politicians are able to take a long term developmental view are they likely to have the incentive to sanction bureaucrats who fail to deliver.

The immediate steps taken by the government as part of its reform process have addressed the negative aspects of political intervention in the bureaucracy in the past. These have included an amendment of the Federal Public Service Commission Ordinance increasing the

Commission's powers to recruit civil servants directly and to terminate appointments which have contravened procedures. This reflects the large number of politically motivated bureaucratic appointments which have been made over the years as a result of a fragmented and ad hoc appointments system. Political representatives seeking to increase their popularity have often offered jobs in the bureaucracy to important client groups and typically these appointments have contravened procedures and led to the appointment of less than competent people. There has also been an amendment of the Civil Service Act enabling the government to prematurely retire inefficient civil servants. A Removal from Service (Special Powers) Ordinance has also been issued to remove corrupt civil servants.

Apart from the fact that the implementation of any terminations will be extremely difficult politically, the current reform proposals do not address the problem of ensuring effective sanctions for bureaucratic performance as outlined in Figure 2. Political goal-setting and subsequent pressure from politicians to see results is critical for effective sanctions for non-performing bureaucrats. The problem is how to ensure that these goals are set for national priorities and not for sectional interests, namely the specific clients of politicians. This goes beyond bureaucratic reforms to reforms which address the organization of political parties such that they do not remain as excessively responsive to sectional and clientelist interests as they are today. The current reforms are only addressing the problem of partially redressing some of the results of clientelistic politics in the past which led to poor quality appointments. They are not changing the political system in such a way that the problem is less likely to happen again in the future.

**B. Pay and Compensation Reform** The theoretical reasons for expecting pay reform to lead to lower corruption and therefore to better governance are straightforwardly based on a cost-benefit calculation which bureaucrats are supposed to make before deciding to be corrupt. This apparently self-evident expectation needs to be qualified by recognizing a number of necessary conditions which have to hold before pay increases or pay reform will deliver the expected results in terms of lower corruption and better governance.

Higher salaries are theoretically expected to lower corruption because they increase the opportunity cost of corruption provided there is some probability of being caught and fired<sup>9</sup>. High wages for bureaucrats operate like efficiency wages. It may be efficient to not only pay civil servants the market wage for their skill level, but indeed a rent on top of that. This is because the work which bureaucrats do is often difficult to monitor and the rent (or efficiency wage) creates an additional incentive not to shirk given some probability of getting caught and fired. However, this theoretical expectation critically depends on the probability of being caught being sufficiently high. Other aspects of pay reform such as greater simplicity in grades, monetization of perks, more accurate lists of employees and so on, are all aimed at making monitoring and evaluation easier.

A necessary condition for pay increases to lead to lower corruption and better service delivery is the existence of good monitoring such that dereliction of duty can be identified and punished with at least a moderate probability. High salaries work as an efficiency wage if there is a reasonable probability that shirking or corruption will be detected and punished, in which case it is the potential loss of the rent which induces the employee to put in the effort. This incentive mechanism breaks down if the probability of getting caught, or of being fired when caught, is very low. If the probability of losing the high wage when the bureaucrat is corrupt is very low or zero, then theoretically, corruption need not decline with pay increases<sup>10</sup>. The cross-national empirical evidence is, as expected, equivocal about the effect of pay increases in reducing corruption and thereby improving governance<sup>11</sup>.

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<sup>9</sup> See for instance, Klitgaard, R. 1988. *Controlling Corruption*. Berkeley: University of California Press, Gould, D. & Amaro-Reyes, J. 1983. "The Effects of Corruption on Administrative Performance: Illustrations from Developing Countries", *World Bank Staff Working Paper No. 580*, Washington D.C.

<sup>10</sup> Besley, T. & McLaren, J. 1993. "Taxes and Bribery: The Role of Wage Incentives", *Economic Journal* 103, point out that if monitoring and auditing is so weak that the probability of catching and firing the corrupt bureaucrat is very low, efficiency wages make no sense. Theoretical reservations are also expressed by Huther, J. & Shah, A. 2000. "Anti-Corruption Policies and Programs: A Framework for Evaluation", *World Bank Policy Research Working Paper*, 2501 and Khan, M. forthcoming 2002. "Corruption, Governance and the Emergence of Capitalism" in Pincus, J. and Winters, J. ed. *Re-Inventing the World Bank*. Cornell University Press.

<sup>11</sup> The ambiguous effect of bureaucratic salaries on corruption is empirically confirmed by Treisman 2000 (op. cit) and Rauch, J.E. & Evans, P.B. 2000. "Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries" *Journal of Public Economics* 75.

**Table 5 Government Pay Scales: Pakistan 1997**

Pay Scale	Monthly Income Range (Rs)	Estimated Average Allowances (Rs)
BPS 1-3	1,245-2,070	1,022-1,115
BPS 4-6	1,360-2,535	1,021-1,039
BPS 7-9	1,480-3,060	906-1,015
BPS 10-12	1,660-3,780	1,050-1,056
BPS 13-16	1,950-5,490	944-1,108
BPS 17-19	3,880-11,600	1,303-2,008
BPS 20-22	9,195-17,000	2,350-2,594*

\* Grades 21-22 receive substantial additional benefits in the form of housing and vehicles.

Source: World Bank 1998. *Pakistan: A Framework for Civil Service Reform*.

The basic pay and allowances are low relative to the private sector and also in terms of international comparisons. Average government pay was 2.3 times per capita income, compared to 4.7 for Asia and 6.7 for Africa.<sup>12</sup> There is understandably little resistance within the civil service to reforms which promise to raise salaries as a way of improving governance. But are the conditions under which these strategies are likely to work fulfilled? The *Pay Award Committee* set up by the Pakistan government has conducted its study and is recommending a pay and pension increase. However, this committee was not empowered to investigate whether the mix of skills should be altered or what the functions of the civil service should be. Bringing up the pay of existing civil servants to a level commensurate with their skills does not necessarily achieve better service delivery or economic management if the civil servants in question are not appropriate for these functions in the first place.

An important question in Pakistan is the issue of the non-monetary perks, particularly for the highest two classes (grades 21 and 22) of civil servants. These perks include housing, cars, telephone and medical bills and so on. Compared to the highest basic salary of Rs. 17,000, a car and house could be worth Rs. 50,000 a month or more. The problem with non-monetary perks is that gross incomes are not transparent, they are not evenly applied since the availability of these perks is not guaranteed for every individual who is entitled to it, so it

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<sup>12</sup> S. Schiavo-Campo et. al. "Government Employment and Pay in Global Perspective", Technical Department for Europe, Central Asia, Middle East and North Africa, the World Bank, 1997.

may easily be the case that effective pay is actually higher than required for some categories or for some individuals. Monetizing these perks would increase transparency and *may* also lower the effective fiscal cost provided that the assets generating these incomes for civil servants could themselves be monetized (for instance government buildings could be rented out instead of being allocated to bureaucrats) and the income from this was greater than the extra monetary income which would have to be offered to the civil servants as part of monetization. It was pointed out by a number of respondents that one problem with monetization would be that it would create a big monetary differential with the next tier (grades 18 and 19) unless the latter were also graded up. This in turn would create ripple effects further down and the net fiscal cost would then be significantly higher.

In theory pay reform which aims to reduce corruption should aim to offer salaries which maximize effort on the part of bureaucrats only there is a reasonably high level of monitoring to ensure that there is a significant probability that non-performers or corrupt bureaucrats will be caught. On the basis of our discussions with participants in these reforms it was clear that such an objective had not motivated the reform process. Rather, it was motivated by a commonsensical notion that some catching-up of public sector salaries is due and that this alone would contribute to lowering corruption. Theory tells us that raising civil servant salaries will not reduce corruption unless there are effective procedures of detecting and firing corrupt civil servants. This requires changes in the terms and conditions of civil service employment and the setting up of internal disciplinary procedures. We have already seen earlier that effective sanctions for non-performing bureaucrats do not exist in Pakistan. Unless changes take place which result in more effective monitoring and which make sanctions effective, pay increases, though they may be desirable for reducing the gap with the private sector and improving the quality of recruits, are unlikely to reduce corruption.

## **2) POLITICAL CORRUPTION.**

### **Causes, Consequences and Policy Responses**

We have seen in our discussion of bureaucratic corruption that the political process plays a critical role in ensuring that bureaucrats are set clear goals and are held accountable. Far from performing this function, many developing countries such as Pakistan have political

systems which contribute to corruption because the political system creates pressures on bureaucrats to favor particular clients of political bosses. Box C in Figure 1 shows that the political system can contribute to corruption both through weak accountability being imposed on the bureaucracy, but also directly through politicians themselves driving corruption by favoring particular clients for political purposes. A key part of the reforms which address systemic corruption must therefore be strategies which aim to reduce the susceptibility of the political system to generate political corruption in the form of clientelism, and to increase the accountability of politicians, and through them, of bureaucrats. Democracy has often been put forward as a strategy which is likely to improve accountability and thus reduce the incidence of corruption. In Pakistan democracy was suspended when the current regime took over, but there is a commitment on the part of the president to return the country to democracy within a specified time frame. However, democracy is normally too broadly defined for it to be a useful policy goal. Many democracies also suffer heavily from political clientelism and political corruption. Not surprisingly, the cross-country empirical relationship between democratization and the reduction of corruption is very weak.<sup>13</sup>

Devolution is a more specific strategy to improve accountability based on the plausible assumption that bringing government closer to the people will make it easier for the latter to monitor and discipline the state. The devolution program is one of the most ambitious policy planks of the present government. Previous military governments, including Ayub Khan in the sixties and Zia-ul-Haq in the eighties also implemented variants of decentralization and devolution, but this government has made an explicit case for devolution in terms of greater accountability being achieved.

The Bank has supported a number of measures to increase the accountability of politicians and thereby make political corruption more difficult. Apart from a general support for democracy and civil society participation, the Structural Adjustment Credit (FY 2001)

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<sup>13</sup> Treisman, D. 2000. "The Causes of Corruption: A Cross National Study", *Journal of Public Economics* 76.

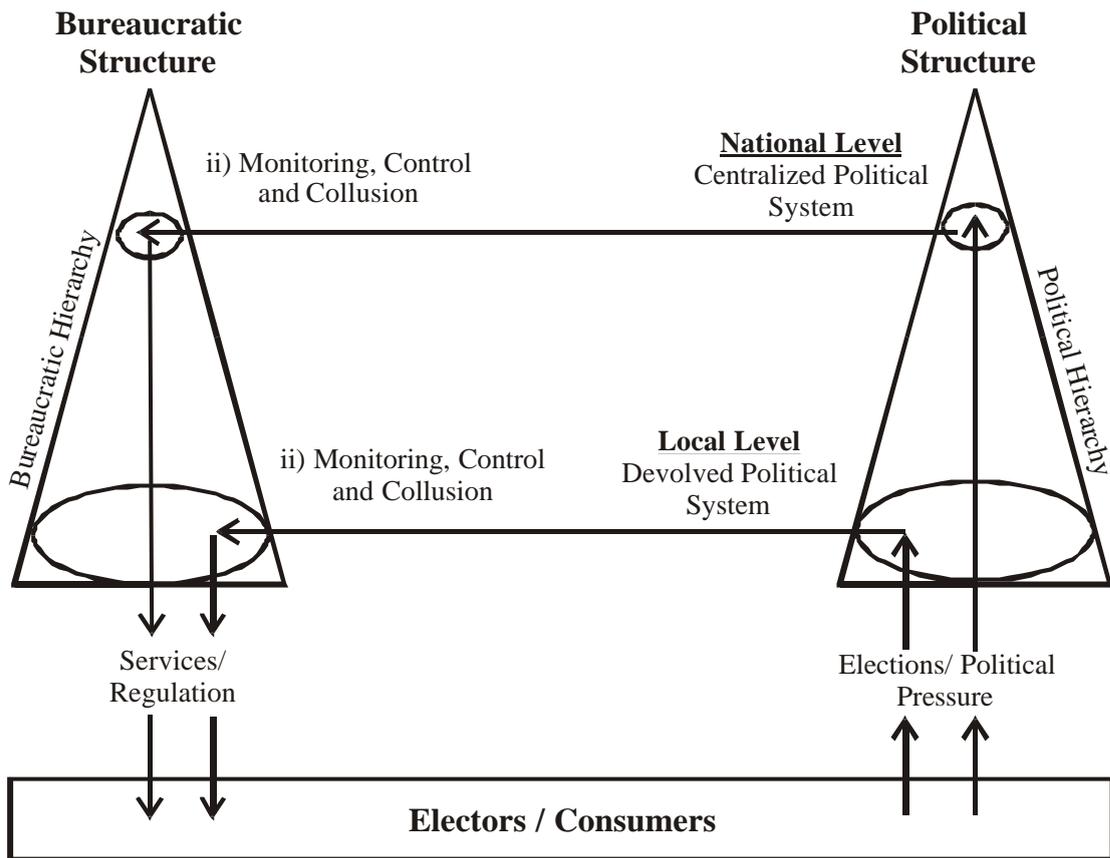
supports the government's devolution program to make government more accountable. The government's aim is to improve the quality of service delivery in health, education, infrastructure, security and justice. The Devolution Plan of the government was launched on August 14, 2000 with the final form of the devolution to be announced in August 2001. The government's devolution plan includes the following components:

- A substantial fiscal decentralization from the provinces to districts. The World Bank and the Asian Development Bank have provided technical assistance in setting up the legal framework defining the personnel, administrative, fiscal and budget management/accountability arrangements involved in the fiscal decentralization.
- Parallel to this, there will be political devolution with elected bodies at the district, *tehsil* and union level which will have the job of approving public expenditures on health, education and basic infrastructure and subsequently of monitoring implementation. Civil servants will be accountable to these local elected representatives.
- To improve accountability further, a *Freedom of Information Ordinance* has been completed and is going through a process of consultation.

Devolution is an area where international comparisons are complicated by substantial differences in the types of decentralization and devolution which have been attempted and differences between countries in their initial conditions. Taking developing countries as a whole, decentralization and devolution seems to have a weak effect on corruption, and through that on governance, but examples can also be found where devolution had a positive effect<sup>14</sup>. To discuss how and why devolution can make a significant impact on accountability, we need to look at the relationship between politicians, bureaucrats and the public in greater detail.

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<sup>14</sup> See for instance Gurgur, T. & Shah, A. 2000. "Localization and Corruption: Panacea or Pandora's Box" *mimeo*, Treisman, D. 2000. "The Causes of Corruption: A Cross National Study" *op. cit.*



**Figure 3 Devolution and Accountability**

The interlocked set of relationships between the electorate, politicians and bureaucrats is summarized in Figure 3 showing the relationships between three sets of agents: the electorate who are the consumers of government services, the politicians or political power-holders who translate their demands and requirements into policy and the government bureaucrats who are responsible for service delivery and regulation. To evaluate how devolution may affect the quality of governance, we have to look at all three sets of relationships<sup>15</sup>:

i) The arrows from the Electorate to the Politicians at different levels of the political hierarchy indicate the role of elections and other political processes in communicating the objectives of the electorate to political representatives. For effective governance, political representatives should not be excessively responsive to (or be captured by) narrowly based interests.

<sup>15</sup> Based on Khan, M. forthcoming 2002. "Corruption, Governance and the Emergence of Capitalism" in Pincus, J. and Winters, J. ed. *Re-Inventing the World Bank*. Cornell University Press.

ii) The arrows from Politicians to Bureaucrats indicate the exercise of control by politicians over civil servants to ensure that the latter carry out their duties to deliver what the public require. Pressure on bureaucrats to deliver is only effective if political control is effective. On the other hand, if politicians are excessively motivated by clientelism, the *removal* of political control over bureaucrats may paradoxically deliver better services for the public if bureaucrats are less responsive to sectional interests. This argument has often been used and misused by dictators to subvert the political process, particularly in developing countries. For effective governance, political representatives have to represent collective interests rather than specific ones, and bureaucrats have to be answerable to their political masters.

iii) The arrows from Bureaucrats to the Electorate indicate the delivery of services and of regulatory functions which in turn are the source of welfare improvements or welfare reductions. For effective governance we require transparent *outcomes*, and the ability of society to monitor these outcomes.

The most important feature of devolution is a transfer of political power and functions lower down the political hierarchy. Where the electorate vote for central or national leaders who in turn control the central organs of the bureaucracy to deliver services and regulation, we have a centralized political system. In contrast where electors vote for local politicians who deliver services by controlling lower levels of the bureaucracy we have a devolved system. Clearly not all services and regulatory functions are suitable for devolution, so devolution refers to the appropriate mix of services being delivered through a devolved system. In a devolved system, more state functions are both delivered and politically monitored at lower levels of the bureaucratic and political hierarchy. The expectation that devolution will result in an improvement in accountability and governance is based on a number of conditions holding. We first identify these conditions logically and then examine the extent to which these conditions hold in the reform context in Pakistan. This allows us to assess the feasibility and likelihood of success of the reform process involving devolution.

### **C. DEVOLUTION, ACCOUNTABILITY AND GOVERNANCE**

1. The devolution reform identifies divisible services which can be provided by lower levels of the bureaucracy without sacrificing efficiency and brings both the level of the bureaucratic hierarchy delivering these services **and** the level of the political hierarchy monitoring and controlling this level of the bureaucracy closer to the final consumer/elector.
2. Consumers/electors find it easier to politically articulate and enforce their interests over local level politicians rather than higher level politicians.
3. Local level politicians find it easier to monitor and control bureaucrats at their level **and** find it more difficult to enter collusive arrangements with them compared to politicians monitoring bureaucrats higher up in the representative hierarchy.
4. Local level bureaucrats responsible for delivering services to final consumers are more transparent, easier to monitor and find it more difficult to form collusive arrangements with specific consumers than higher level bureaucrats responsible for delivering the same services.
5. If these conditions hold, governance will improve in a number of respects: a) the services delivered and regulatory functions of the state will be more appropriate for final consumers, b) they will be more efficiently produced and c) waste, including corruption, will be more easily detected and removed.

**1. Identification of Functions to be Devolved.** Theoretically, devolution should only be applied to divisible services. Otherwise, any monitoring and accountability improvements,

even if achieved, would have to be set against increased technical inefficiencies in provision. Where an investment is indivisible, devolution will result in diseconomies of scale and perhaps inadequate investment because of a free-riding problem between the devolved units. In addition, where different government services are complementary, there are benefits from centralization of provision up to a point, even at the cost of higher corruption and information costs<sup>16</sup>. This point reiterates the importance of first agreeing on a coherent set of services which government should provide (see Box A in Figure 1). This can be extended to say that there should also be clarity about which level of government should be entrusted with the delivery or provision of particular services or regulations.

Just as a discussion about the overall functions of the civil service in Pakistan has not taken place, in the context of devolution, a discussion of which services are sufficiently divisible and which should therefore be devolved has not preceded the devolution proposals. The proposed devolution envisages a decentralization of service delivery responsibilities from the provincial to the district level. The provincial level in Pakistan has been responsible for education, health, social welfare, infrastructure, regional planning and water and sanitation, in other words for virtually all service delivery. As it happens, much of this can probably be devolved without loss of scale economies and complementarities in provision, particularly since policy-making with respect to most services will remain at the provincial level. However, a number of our interviewees expressed concern that inadequate attention had been given to ensuring that revenue would be collected at the appropriate tier of the government which had responsibility for deciding on indivisible capital expenditures. Concern was also expressed about regionally interdependent infrastructure investments being maintained after devolution.

The most important part of the proposed devolution plan is to create a new level of elected local political representatives parallel to the district administrative levels of the civil service.

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<sup>16</sup> Theoretically, if there are complementarities between different functions provided by government, centralized provision can be more efficient, even if the total bribe collected by the centralized agency is higher compared to more fragmented provision. Shleifer, A. & Vishny, R.W. 1993. "Corruption", *Quarterly Journal of Economics* 108, Khan, M. 2000. "Rent-Seeking as Process", in Khan, M. and Jomo, K.S. eds. *Rents, Rent-Seeking and Economic Development*. Cambridge: Cambridge University Press (esp. pp. 131-4).

At the lowest level, village and union councils will be directly elected, their vice-chairmen and chairmen will constitute the next two tiers respectively, the *tehsil* and district councils. The political heads of the *tehsil* and district councils, the *nazims*, will be indirectly elected by the village and union council members. The *nazims* are political representatives who are going to be located at the same level as the critically important district level civil servants and their job will be to monitor service delivery for the devolved services which will no longer be provincial subjects but will instead be devolved to districts.

A significant weakness in the proposed devolution plan which was pointed out by a number of respondents, including representatives of political parties, is that at least for the first three years, the budget employing civil servants at the district level will remain under the control of the provincial government so that the district *nazim* will have very limited powers to sanction non-performing bureaucrats. The *nazim* will have the power to ask for bureaucrats to be transferred but will not be able to decide on staffing levels or to sanction individual bureaucrats. This means that in effect political power will not be devolved for a critical range of decisions. In the words of one of the politicians interviewed, this devolution “is not devolution but only a local bodies election”. A reservation was also expressed that the intention of the military regime may be to create a tier of elected representatives and of patronage which creates legitimacy for the regime without necessarily moving towards true devolution. The experience of previous devolution experiments under military regimes gives some ground to hold to this suspicion.

**2. Political Control of Electors over Politicians.** For devolution to result in better governance, the second precondition is that devolution should result in a more accurate articulation of the popular will and break down the tendency towards political clientelism or the capture of political power by sectional interest groups. One difference between elections for provincial representatives on the one hand and village and union representatives on the other is that in the latter the size of the constituency is much smaller and so the same provincial population will ultimately be electing a much greater number of politicians at the local level than they did at the provincial level. Purely arithmetically, village politicians will represent the popular interest to a greater extent simply because they are more numerous

and therefore the likelihood is that a greater variety of interests will be represented. On the other hand, the disparity of organizational and financial power can be as great within a village constituency as a provincial constituency since the latter is simply an agglomeration of the former. Therefore we should not expect village and union representatives to necessarily reflect the interests of the entire population. They are *likely* to reflect the interests of a *more* broad-based elite than the provincial politicians but it will be an elite nonetheless and the interests of the local government elite need not always be more developmental compared to the elite represented at the provincial level<sup>17</sup>.

However, in one respect the people-politician relationship may improve with devolution. There may be an improvement in the degree of control which local elites have over their elected representatives compared to the control which the same elites have over provincial politicians and this may contribute to an improvement in service delivery. But from the observations of the last paragraph, we should be wary that delivery may be biased towards elite groups at the village or union level who may also try to profit from getting contracts and employment by colluding with local politicians.

A number of our interviewees pointed out that it would be too optimistic to expect local elections to produce an entirely new class of political representatives who were not responsive to narrow clientelist interests at the local level and did not collude with them. One weakness of the devolution process in Pakistan is that mass parties are not organizing the local electorate along clearly defined programs of service delivery. Indeed, local government elections are to be based on non-party competition. This means that the contestants cannot rely on mass mobilizations but have to rely on elite-based mobilizations to a greater extent to mobilize voters. A number of respondents suggested that this may make the village and union councillors less representative of mass interests than they need have been. At best we can expect a greater degree of political control over local politicians by local elites, which

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<sup>17</sup> In India local government service delivery has been most successful in states such as West Bengal and Kerala where elections have been contested in the context of centralized party structures with strong developmental and welfarist goals. However imperfectly, these structures gave the poor some access to politics. See for example Williams, G. 1999. "Panchayati Raj and the Changing Micro-Politics of West Bengal" in Rogaly, B., Harriss-White, B. & Bose, S. eds. *Sonar Bangla? Agricultural Growth and Agrarian Change in West Bengal and Bangladesh*.

may eventually translate into better service delivery over time even though service-delivery may still not be truly universal in scope.

**3. Monitoring of Bureaucrats by Politicians.** For governance to improve with devolution it is also necessary that local politicians should be able to monitor and control local bureaucrats better than provincial politicians are able to monitor and control bureaucrats at the provincial level. On the one hand, we can expect local politicians to have a greater *incentive* to monitor and discipline district level bureaucrats if these politicians have to answer to local constituencies to a greater extent than provincial politicians. But on the other hand, local politicians may have a lower *ability* to monitor and discipline bureaucrats compared to provincial or higher level politicians for at least three reasons.

i) Local politicians may lack sufficient constitutional powers to effectively sanction bureaucrats. According to the devolution plan being proposed in Pakistan, district *nazims* will constitutionally lack the power to determine the employment of bureaucrats either at the aggregate budgetary level or at the level of individuals.

ii) In developing countries in particular, the educational and status gap between politician and bureaucrat may be far greater at the local government level than at higher levels. The district bureaucrat in Pakistan is usually well educated since most bureaucrats start their careers at the district level and work their way up. On the other hand, the political leadership at the national and provincial level is likely on average to be from a more educated stratum compared to the politicians at the village and union level from whose ranks the *nazim* will eventually emerge. This may change in the long-run if provincial politics is downgraded as a result of devolution and ambitious individuals in the provinces enter district politics instead. There are indications in the Pakistani press that some well-placed individuals from prominent political families are contesting local elections. Nevertheless, the reservation expressed by a number of our interviewees was that the average level of district politician would be lower, raising doubts about their ability to stand up to and evaluate the performance of district bureaucrats.

iii) Apart from the local level politicians' ability to monitor the bureaucrat, there is also the question of whether they would be more or less likely to engage in collusive corruption with bureaucrats compared to provincial and national politicians. A number of respondents, including senior bureaucrats, politicians and businessmen expressed the opinion that political corruption may well be significantly greater when local politicians are in charge of monitoring key areas of service delivery. Local politicians are more likely to be responsive to political demands from powerful constituents. Their lower level of education and the absence of a high degree of scrutiny from civil society and the press in isolated locations were also suggested as reasons. A few respondents argued the reverse, claiming that local politicians will be more closely scrutinized by the local electorate and will be less able to collude with bureaucrats. On balance, the expectation of our interviewees was that if collusion and corruption is to decline through devolution, it is at best a long-term process and the likelihood is that collusion between bureaucrats and politicians will persist or increase in the medium term.

Devolution was widely supported by our interviewees on a number of other grounds. First, it was suggested that it would strengthen federalism and thereby the unity of the country. It was also suggested that the expansion of the bureaucratic and representative structures had not kept up with the growth of population and so devolution was a way of addressing the fact that the country was essentially under-governed. Even if corruption was likely to increase in the short-run, it was argued that in the long-run devolution was necessary for raising governance capacity. Others believed that the real devolution of power required was from the federal level to the provincial level but the devolution from provincial to district levels would at least start the process and raise important constitutional questions.

On balance, the effect of devolution on the politician-bureaucrat relationship and through that on governance is theoretically anomalous and in the opinion of many of our interviewees, the effect is as likely to be a lowering of monitoring quality and an increase of collusive corruption, at least in the medium to short term.

**4. Monitoring of Bureaucrats by Consumers.** For devolution to have a significant effect on governance, decentralization should make it easier for consumers to monitor bureaucrats. This expectation is theoretically most likely to be achieved because by designating a lower level of the bureaucracy as the level having final responsibility for the delivery of a specific service, it makes the bureaucrat more accessible for individual consumers with a grievance. We would therefore expect greater transparency since it would be more difficult for the bureaucrat delivering the service to be able to blame higher levels for failure.

However, this would only be translated into greater accountability if the budgeting for the services was also consolidated at the local level, so that failure could not be attributed (or actually be due to) funds failing to arrive from higher levels. In those cases where funding was dependent on higher levels releasing funds, accountability would depend on the ability of consumers to make a more sophisticated assessment that service delivery was commensurate with the funding which had actually been released rather than the funding which was promised or planned.

Locals will clearly be very aware of failures of delivery by local government. The question is what can and will they do about it? Any exaggerated expectation of public responses to poor service delivery should be tempered by the experience of the Social Action Program in Pakistan which was set up to deliver core public services like health and education. In particular SAPP 1 (FY 1994) envisaged community responsive planning and management, decentralized service delivery and a greater role for monitoring by civil society. Many respondents pointed out that political patronage, nepotism and political corruption subverted service delivery without widespread public protest at the point of service delivery. Despite attempts to improve governance in the delivery of services, the report of the Auditor General's Office which carries out Third Party Validation of SAPP service delivery suggests that the quality of governance remains weak. Summary statistics from the report are shown in Table 6, which shows that only about a third of procurement decisions and around two-thirds of recruitment and site-selection decisions passed the good governance test even in terms of the minimal criterion used by the Third Party Evaluation, which is that official procedures for making these decisions should have been followed.

**Table 6 Third Party Validation of Social Action Programme in 2000 to Assess Governance**

Governance Issues	Cases Reviewed	% with Acceptable Governance
Recruitment	156	64
Procurement	3733	36
Absenteeism	637	31
Site Selection	1292	62

Source: Government of Pakistan. Auditor General of Pakistan: *Social Action Programme: Third Party Validation*. March 2001.

The governance failures reported in Table 6 very likely reflect disparities of power at the local level between most consumers and the elites who control and have influence over government and bureaucracy and who get the lucrative contracts for service delivery often at the expense of common people. Keeping these realities in mind, we can expect devolution to be only a first step in the right direction as far as monitoring of service delivery by the public is concerned.

To conclude, in terms of the conditions we have identified as prerequisites for devolution to result in substantial improvements in governance, there are significant gaps which lead many of our respondents to qualify their expectations from devolution as it is planned in Pakistan. In particular, the areas which are the greatest cause of concern include the following.

First, devolution in Pakistan is not part of an integrated review of the desirable functions of government and how these functions should be carried out in terms of levels of government, methods of monitoring, and so on. Secondly, even as a mechanism for improving accountability, our respondents pointed out the failure to devolve sufficient power to district level politicians commensurate with their responsibility of monitoring and disciplining bureaucratic service delivery. Thirdly, doubts were expressed about whether local government elections can bypass sectional elite interests particularly in the absence of mass political parties. Fourthly, the ability of local government politicians to monitor and discipline district bureaucrats assumes a high educational level of local politicians and their possession of adequate support staff to carry out these tasks. Fifthly, the ability of the public to monitor the quality of service delivery depends critically on clear statements of goals at the district level and the overcoming of political and status differences by poor people who most often lose out from governance failures. Given the logical interdependence of the conditions

identified at the outset, these areas of weakness could potentially undermine the results expected from the devolution exercise. Nevertheless, as part of a bigger program of enhancing accountability and achieving better interest articulation through the political process, devolution of some functions of the federal and provincial governments may play an important part in governance reforms. In terms of relevance, devolution as a contributor to improvements in corruption and governance must be of substantial importance. But for the reasons identified above, the contribution of the specific process of devolution being implemented in Pakistan is likely to be modest in terms of efficacy and impact.

## **CONCLUSIONS AND RECOMMENDATIONS**

The Bank has been supporting the implementation of a series of measures to improve governance and reduce bureaucratic and political corruption in ways which the government of Pakistan has identified and which we have described above.

The Structural Adjustment Credit (FY 2001) explicitly records Bank support for the government's governance improvement measures. With respect to Civil Service Reform, the actions of the government which are supported include

- Amendment of the Federal Public Service Commission Ordinance allowing it greater powers in recruiting civil servants and in terminating appointments which have contravened procedures.

- Amendment of the Civil Service Act enabling the government to prematurely retire inefficient civil servants. A Removal from Service (Special Powers) Ordinance has been issued to remove corrupt civil servants.

- New systems for better career management, promotion and evaluation.

- The Report of the Committee on Civil Service Restructuring and Downsizing. The committee reported on reforming the federal government. Recommendations include the elimination of around 12% of the employees of federal government, primarily at lower levels of the pay scale.

- The Report of the Committee on Civil Service Pay and Benefits Reform and Establishment Division. This committee recommended broad pay and benefits reforms.

While these reports and recommendations constitute actions already taken by the government, in granting the Structural Adjustment Credit (FY 2001), the Bank notes that a number of follow-up actions are desirable. In particular, it notes that the government should

- Implement the revised pay scales and benefits and carry out the downsizing in accordance with the federal government restructuring plan over 2001-2003.
- Implement career development, training and personnel management reforms as envisaged by the Establishment Division.

The Bank has also supported the government's devolution program. Here, the follow-up actions which the Bank recommends in the Structural Adjustment Credit (FY 2001) document include

- The phased implementation of the administrative and fiscal decentralization envisaged in the devolution plan
- The full implementation of the political devolution envisaged in the devolution plan
- Promulgation of the *Freedom of Information Ordinance*.

As this credit line has only just been approved, the implementation of these reforms will remain to be seen. However, it is noteworthy that the Bank's Report recommending the loan does not identify any mechanisms through which monitoring of the implementation is to be carried out, or identify an overall time frame for implementation, or identify steps which the Bank can take in engaging with the government over the time frame of the loan if implementation is inadequate.

The specific reforms discussed in this chapter were substantially the initiatives of the Government of Pakistan. The local ownership content was thus high and this constitutes one of the strengths of the reform process undertaken by the present regime. The Bank has only recognized the importance of the steps taken by the government in commissioning reports and expressing its commitment to push through these reforms. The partnership element could have been pushed further in identifying ways in which implementation could be monitored and assisted by the Bank. In interviews with senior Bank officials it was clarified to us that the reform process was not a conditionality of the SAC. However, since the long-term

ability of Pakistan to service its debt depends on social productivity improvements flowing from the governance reforms, the Bank could have identified the implementation of key components of the governance reforms as important enough to require ongoing assistance and partnership with the Bank, even if they were not identified as conditions. If the Bank is unwilling to do this, the inclusion of governance reform as a Bank objective is rather pointless since the Bank is effectively giving unconditional loans to support the budget untied to any outcome.

Taking all aspects of bureaucratic and political reform together, a number of areas are particularly weak in the government's reform approach and further attention needs to be given to these areas in the future.

First, there has to be much greater clarity about the objectives of government as identified by the highest levels of the reforming leadership. Our extensive interviews revealed a wide gap between the theoretical requirement of policy coherence and the reality where different departments and levels of the bureaucracy, political respondents and representatives of civil society, each identified different areas of bureaucratic and political corruption which were most important, and different areas where government service delivery should concentrate. The determination of the core areas of state action is clearly deeply political and it would be inappropriate for the Bank or any outside agency to prescribe in a one-sided way. However, the Bank can identify this as an important area where progress needs to be made, make available international comparative studies and facilitate a national debate with a view to strengthening the political process to deliver a coherent reform policy.

Second, concrete steps need to be taken to strengthen the capacity of the higher levels of the civil service in areas of critical importance to be identified through this process. The Committee on Restructuring and Rightsizing of the Federal Ministries/Divisions identified this as an important area but did not provide a comprehensive study of areas of competence and areas of weakness. Indeed this cannot be done before political agreement on the overall functions of government as outlined above has been achieved. But here too, the Bank can assist in providing technical support for carrying out such a study.

Third, a political constituency has to be created to support downsizing the civil service at the lower levels. Even reforming bureaucrats who were part of the Committee on Restructuring warned us that such a constituency did not exist and indeed in a climate of economic downturn, the employment generation tasks of the state were widely expected to continue. These respondents pointed out that the political feasibility of a reform package would be considerably enhanced if it could be combined with a social welfare program which was targeted at the classes and groups which would most seriously suffer from a cutback in low-level civil service employment.

Fourthly national awareness has to be created about the problem of political clientelism and how it destroys the possibility of effective political monitoring of the bureaucracy. Again this is a deeply political issue about the nature of internal politics in Pakistan, but effective monitoring and sanctions within the bureaucracy are almost impossible to achieve as long as the political process remains highly clientelistic, with a built-in tendency to support political corruption. Many senior political representatives whom we interviewed refused to accept this as a serious problem, even though its importance in Pakistan (and many other developing countries) is widely known and recognized both by common people and the media. The widespread refusal on the part of politicians to accept political clientelism as a major problem paradoxically shows the seriousness of the problem, because politicians understand that they will find it very difficult to operate if they actually take a position of not responding to the demands of powerful clients. Here too, the Bank can help by educating the media and involving social scientists in a national debate on the effects of clientelist politics and its implications for attempts to impose effective political controls over the state's service delivery and regulatory functions.

Fifthly, those areas of service delivery which are suitable for devolution should be supported with more effective powers for district level politicians to control the budget. The devolution program as it is currently formulated has a number of weak points which have been outlined in detail in the last section. Of these, the weakness of effective budgetary devolution is the most immediate. Without budgetary power, the monitoring by political representatives is

meaningless, but of course, the reservations expressed about political clientelism in the last point above also have to be kept in mind. Clearly successful and sustained improvements in governance and reductions in corruption require simultaneous moves on a number of fronts, but even if that is not possible, moves on each front should be well thought through, so that even if they do not produce immediate results, they can contribute to better results once changes in other areas have also been achieved.